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Center for Regional Analysis

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Coastal Empire ECONOMIC MONITOR

MORE OF SAME: SLOW GROWTH. Forecasting Index Shows More Life

The region's economy continued its slow recovery for the sixth consecutive quarter. The pace of expansion dipped, as compared to the first quarter, mimicking the nationwide slowdown in economic growth.

The Coastal Empire leading economic index significantly improved during the second quarter of 2011. This consolidates and extends the modest improvement in the forecasting index during the past nine months. The forecasting index is pointing toward more apparent improvement in economic conditions in early 2012, while the remainder of 2011 should feel modestly better than the year's first half.

Recent Growth Slips

The Coastal Empire coincident economic index increased four-tenths of one percent to 150.9 from 149.8 during the second quarter of 2011. This represents a slight easing from the nearly one percent improvement in the January through March period. Components of the index contributing to growth include increased consumer confidence, port activity, tourism and general employment. Disappointingly, however, electricity sales fell along with retail sales activity.

Seasonally adjusted employment in the Savannah metro area increased by 400 workers, rising to 149,800 on a quarterly basis. The service sector of the economy accounted for a gain of 500 jobs with a total increase of 700 workers in transportation, business/professional services, and miscellaneous services. Financial services slipped by 200 jobs. Strength

in port activity is driving the results for the transportation sector growth, while continued recovery in the region's private sector is the driving force behind the increase in service sector jobs. By contrast, public sector employment was flat during the quarter with virtually no growth in local, state, or federal government workforces.

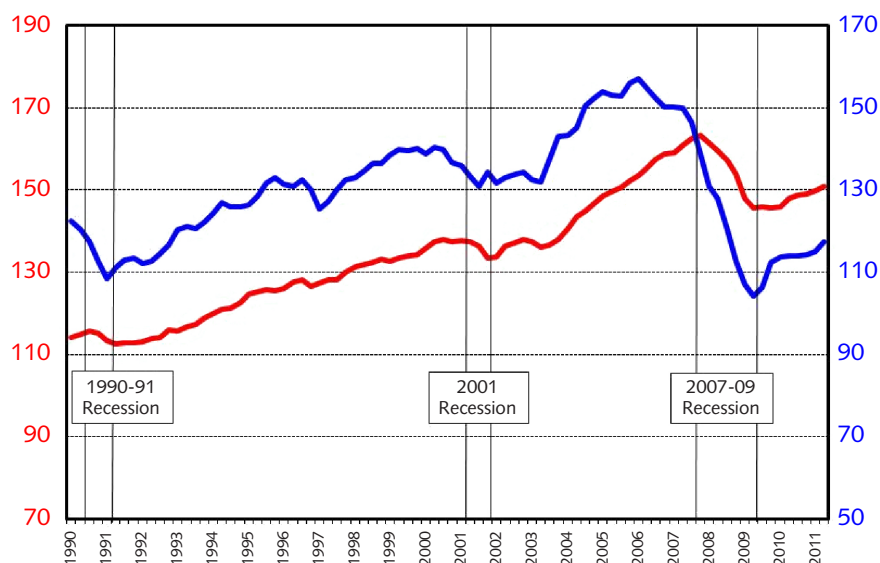
The goods-producing side of the economy slipped by 100 jobs as a result of continued contraction in the construction industry. Construction employment is down by 40 percent from its 2006/2007 peak (of just over 10,000 workers) to 5,700 workers today. Manufacturing employment was unchanged at 13,700. The regional manufacturing sector has been trading water for 18 months.

The tourism industry continues to be a mainstay of support for the greater regional economy. A recently commissioned study released by VisitSavannah reports the city hosted 11.4 million visitors who spent approximately \$1.7 billion while in town in 2010.

In the second quarter of 2011, seasonally adjusted hotel room rental taxes increased 7 percent from the first quarter while hotel sales revenue hit a record high level through the first half of the year. This is consistent with increased tax receipts from rental cars, alcohol sales and preservation fees charged to visitors on tours around the city. The gains in tourism-related activity occurred while employment in the sector remained flat, thus indicating increased productivity from workers in the sector.

(continued)

Coastal Empire Economic Indicators
Leading and Coincident Indexes



National Growth Slows to a Crawl

U.S. economic activity grew at an annualized rate of one percent during the second quarter after growing at an anemic 0.4 percent pace in the first quarter. Declines in consumer spending and exports account for much of the deceleration in growth. Consumer spending accounts for about 70 percent of all economic activity. However, businesses continued to spend on equipment and software and invested in commercial construction at a 15.7 percent annual pace. Federal government expenditures contributed to GDP growth but were partially offset by reductions in state and local government spending.

The Federal Reserve concluded the second round of quantitative easing (QE2) in June that saw the Fed purchase approximately \$600 billion of U.S. Treasury issues. The Fed is now reporting the federal funds rate will be held down in its current range of zero and 0.25 percent well into 2013. The Fed has reduced its expectations for economic growth this year, citing higher levels of prevailing uncertainty. While inflationary pressure built up in response to rising energy, food, and commodity prices, more recent data suggest this pressure is dissipating.

Forecasting Index Gains Ground

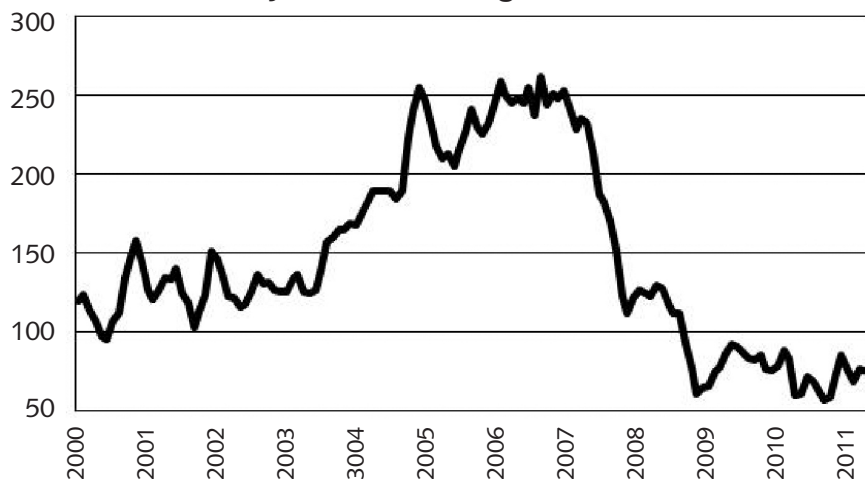
The Coastal Empire leading economic index increased 2.1 percent during the second quarter of the year, rising to 117.5 from 115.0 (revised) in the previous quarter. The forecasting index has been gathering momentum during the previous three quarters

A Note From the Director

The *Economic Monitor* is available by email and at the center's website (www.armstrong.edu/Liberal_Arts/economics). If you would like to receive the *Monitor* by email, please send a "subscribe" message to CRA@armstrong.edu.

Financial support provided by the Armstrong Foundation.

Savannah MSA Monthly Home Building Permits Issued



Source: U.S. Census Bureau & Armstrong CRA

and this quarter's increase was the most powerful in nearly two years. While housing market conditions remain weak, labor market conditions appear to be improving along with consumer expectations.

The seasonally adjusted number of new residential homes permitted for construction fell by four percent, yet remain twenty percent higher than year-ago data (see chart). The number of permits issued was 217, as compared to 227 in the previous quarter. The average value of a residential building permit issued substantially increased, rising by 26 percent to \$159,400. This offsets an anomalous reading in the first quarter and returns the average value to more typical levels of late.

The strain on the labor market appears to be modestly easing. Help wanted advertising was down 2.8 percent from the previous quarter, but is nearly level with year-ago data. In addition, initial claims for

unemployment insurance decreased by 4.5 percent, falling to 1,268 claims per month. This is the lowest level since the third quarter of 2008.

The forecasting index is beginning to foreshadow stronger economic growth in early 2012. However, the contentious debate over the federal debt ceiling, along with stubbornly high unemployment rates, may dampen consumer expectations and restrain economic activity in the near term. Economic growth in the remainder of 2011 will not be particularly impressive, but should outpace growth in the first half of the year. The current expectation is that conditions will show more improvement in early 2012.

About the Indicators

The Coastal Empire Economic Indicators are designed to provide continuously updated quarterly snapshots of the Savannah Metropolitan Statistical Area economy. The coincident index measures the current economic heartbeat of the region. The leading index is designed to provide a short-term forecast of the region's economic activity in the upcoming six to nine months.